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Swiss commodities traders feel Singapore heat

By Emiko Terazono in Geneva and Javier Blas in Singapore

The trading hubs are competing 'neck to neck'

In a week that Singapore was hosting two big commodities conferences – one for mining and one for grain trading – over in Geneva, industry executives, government officials and academics gathered for what almost felt like a morale boosting session.

Organised by the Geneva Trading and Shipping Association, which represents the city's commodity trading companies, and the University of Geneva, the forum, headlined "Relevance of the commodity trading hubs and sustainable factors of success", looked at Switzerland's history as a trading hub stretching back to the mid-19th century, as well as its strengths, challenges and the regulatory climate.

With attractive tax rates and other fiscal incentives, Switzerland and Singapore have become the leading destinations for international commodity trading.

However, with Singapore's aggressive marketing, tax advantages and the huge presence of China – the leading commodity consumer – Switzerland is feeling the heat.

"Singapore is a threat," Nicolas Tamari, chief executive of Geneva-based coffee trader Sucafina, told the forum.

Last year, Singapore lured Trafigura, one of the biggest commodities trading houses, to move its legal trading headquarters to the Asian city-state from Switzerland. Privately, industry executives say it will not be the last move as companies are attracted to the low tax regime and other facilities that Singapore provides.

The Singaporean authorities launched the so-called "Global Trader Program" in June 2001 which offers a corporate tax rate of 10 per cent to traders. Trading houses can qualify for a 5 per cent rate if they commit to meeting certain staff hiring levels, make significant use of Singapore's banking services, and other criteria. The 5-10 per cent rate compares with Switzerland's corporate tax for commodities trading companies, which is in the region of 8-10 per cent.

In spite of the challenge, Switzerland feels still strong and Mr Tamari ventured that both Geneva and Singapore are going to be "competing neck to neck".

Alexander Karrer, deputy secretary of the Swiss government's International Financial Matters, emphasised that commodities traders did not necessarily need to be in the same region as their customers, while Stephane Graber, secretary-general of the GTSA, said he would do his utmost to defend Swiss commodities traders from increasing pressure from EU and US authorities to regulate the industry.

Martin Hess, chief economist of the Swiss Banking Association, threw some interesting numbers into the debate: the portion of annual GDP attributable to commodities trading staff was SFr1.5m-SFr2m, compared with SFr200,000 for bank employees and SFr100,000 for workers outside of those sectors. The economic cost of a commodity trader moving out of Switzerland was considerably larger than for other industries, he noted.

Switzerland has a lot going for it as a commodities trading hub. It is in the right timezone – sitting in Lausanne, the second-largest city on the shores of Lake Geneva, Jonathan Kingsman of the eponymous sugar consultancy says he would have moved to Singapore when he was approached by officials there five years ago but for the thought of staying up until 2am to trade with the US.

Traders also mention the lifestyle and the stability and predictability – so far at least – in the regulatory and fiscal regimes. The skilled labour pool and proximity to the commodity trade finance bankers are also a must, they say.

Of course, the high costs, exacerbated by the strong Swiss franc, are an increasing burden for commodities trading firms. At a time when Swiss public antipathy towards highly paid executives and bankers is running high, the industry is wary of the backlash spreading. At the conference Jaques-Olivier Thomann, former BNP Paribas banker and current GTSA president, warned that the unwelcoming climate in Europe, including Switzerland, towards commodities traders could drive companies away.

It's not only Singapore from which Switzerland faces competition in the commodities trading hub race. Other locations have built a critical mass in commodities trading, including London, Calgary, Houston, São Paulo, Barbados, Rotterdam and Dubai. Countries and cities are racing to offer tax incentives to traders, including Kuala Lumpur, which offers a tax holiday to certain trading houses, and Hong Kong, which boasts a zero tax on international trading that occurs entirely outside its borders.

But for some in Geneva, Switzerland may be hard to leave. Pointing at the lake and the mountains outside his office window, Mr Tamari says, only half-jokingly: "London is rainy, Dubai is hot and Singapore is humid."

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